

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 AID-20 SS-20 NSC-10 IGA-02 EB-11 TRSE-00

SSO-00 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01 INRE-00

COME-00 OMB-01 L-03 AGR-20 DRC-01 ABF-01 /113 W

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O 220845Z OCT 73

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC IMMEDIATE 161

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E.O. 11652: N/A

TAGS: EAID, CERJ

SUBJ: US ASSISTANCE TO SRI LANKA

REF: STATE 208625

1. I VERY MUCH APPRECIATE DECISION TO ALLOCATE 20,000 TONS OF PL-480 WHEAT FLOUR TO SRI LANKA AND AM CONVEYING WORD TO PRIME MINISTER BANDARANAIKE THROUGH HER SECRETARY, M.D. DMKQPIERIS#. I RECOGNIZE THIS DECISION WAS EXTREMELY DIFFICULT, GIVEN TIGHT SUPPLY SITUATION AND NUMBER OF CLAIMANTS, AND I AM CONFIDENT GSL TOO WILL BE GRATEFUL FOR THIS GESTURE ON OUR PART. I PLAN SEEK APPOINTMENT WITH PRIME MINISTER TO DISCUSS MATTER DIRECTLY WITH HER.

2. I AM CONCERNED, HOWEVER, ABOUT TWO ASPECTS OF DECISION AS IT WAS CONVEYED TO AMB KANAKARATNE. MY FIRST AND MOST IMMEDIATE CONCERN I TOTALLY UNEXPECTED LINKAGE BETWEEN APPROVAL OF WHEAT FLOUR ALLOCATION AND ISSUE OF EXCHANGE RATE OF SRI LANKA'S RUPEE DEBT (I.E. MAINTENANCE OF VALUE QUESTON). MY SECOND CONCERN RELATES TO OUR FAILURE TO CONVEY TO GSL OUR INTENTION TO SEEK OTHER WAYS TO FULFILL WHAT GSL CONSIDERS TO BE COMMITMENT TO PROVIDE \$15 - \$18 MILLION IN WHEAT FLOUR.

3. WITH REGARD TO RUPEE DEBT ISSUE, BRIEF HISTORICAL REVIEW
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IS IN ORDER. AFTER SEVERAL YEARS EFFORT WITHIN BUREAUCRACY,

WE FINALLY ARRIVED AT USG POSITION IN LATE 1972 WHICH THIS EMBASSY DISCUSSED WITH GSL IN EARLY 1973. IT QUICKLY BECAME APPARENT THAT THERE WERE IMPORTANT DIFFERENCES BETWEEN TWO GOVTS, INCLUDING QUESTIONS OF FACT AND INTERPRETATION. TO OBTAIN CLARIFICATION WE PUT SOME OF THESE QUESTIONS TO DEPT IN MAY BUT RECEIVED NO REPLY (COLOMBO 1182). WE INQUIRED AGAIN IN JUNE BUT STILL HAVE RECEIVED NO REPLY (COLOMBO 1535). UNDER CIRCUMSTANCES, THERE WAS GOOD REASON TO BELIEVE THIS WAS NOT ACTIVE ISSUE AS FAR AS WASHINGTON WAS CONCERNED. I THEREFORE FIND IT SOMEWHAT INCOMPREHENSIBLE THAT, WITHOUT ANY ADVANCE CONSULTATION WITH EMBASSY, MAINTENANCE OF VALUE ISSUE HAS SUDDENLY BEEN REVIVED AND HAS BEEN LINKED FOR FIRST TIME WITH OUR FY-74 AIR PLEDGE.

4. AID CONDITIONING OF THIS NATURE IS QUESTIONABLE IN ANY EVENT. IT IS PARTICULARLY QUESTIONABLE TO CONDITION OUR ASSISTANCE IN MIDDLE OF SRI LANKA'S MOST SEVERE FOOD CRISIS IN MODERN HISTORY, JUST AFTER GSL HAS ANNOUNCED MOST FAR-REACHING FOOD SUBSIDY REFORMS OF LAST DECADE AND AT TIME WE ARE TELLING CEYLONESE WE ARE ABLE TO SUPPLY LESS THAN ONE-THIRD VALUE OF OUR FY-74 PLEDGE. AT BEST, THIS TYPE OF LINKAGE REPRESENTS HEAVY-HANDED DIPLOMACY; AT WORST, IT SMACKS OF SHYLOCKISM.

5. I URGE THAT WE IMMEDIATELY DROP ANY IDEA OF LINKING OUR 20,000 TON ALLOCATION WITH RESOLUTION OF MOV ISSUE AND THAT MACDONALD NOT PRESS THIS POINT IN HIS CONVERSATION WITH KANAKARATNE. IF WE DO NOT DELINK, WE WILL ERASE ANY ADVANTAGE WE HOPE TO GAIN BY OUR PL-480 OFFER AND WILL RUN UP SERIOUS POLITICAL DEBIT, ESPECIALLY SO IF WORD LEAKS OUT THAT USG THREATENING TO WITHHOLD FOOD AID ON UNRELATED TECHNICAL ISSUE. IN ANY CASE, BEFORE WE CONSIDER NEXT STEPS ON RUPEE DEBT ISSUE, OR ANY NEW INSTRUCTIONS, WE WOULD FIRST APPRECIATE ANSWERS TO QUESTIONS EMBASSY POSED MORE THAN FIVE MONTHS AGO.

6. WITH REGARD TO MY CONCERN RE ADDITIONAL ASSISTANCE FOR GSL, DEPT WILL RECALL MY EARLIER RECOMMENDATION THAT WE SEEK TO PROVIDE \$15-\$18 MILLION IN WHEAT FLOUR FOR FINAL QUARTER FY-74. I SUGGESTED THAT, IF IT BECAME NECESSARY TO TELL CEYLONESE PL-480 DOOR WAS CLOSED, WE SHOULD TELL THEM AT THE SAME TIME WE HAD FOUND OTHER WASYS TO BE EQUALLY HELPFUL. ASSISTANCE SECRETARY LIMITED OFFICIAL USE

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SISCO, ON HIS PART, TOLD KANAKARATNE OCT 3 WE WERE "LOOKING FOR OTHER WAYS TO HELP." (STAE 197167) FORTUNATELY, DOOR HAS PROVED TO BE PARTIALLY OPEN AND I AM INDEED GRATEFUL THAT WE HAVE BEEN ABLE TO OFFER SOME WHEAT FLOUR TO GSL. FACT REMAINS HOWEVER THAT WE HAVE OFFERED PROVIDE ONLY ABOUT ONE-THIRD OF DOLLAR VALUE OF OUR PLEDGE WHICH TRANSLATES OUT TO 20,000 TONS, AS COMPARED WITH GSL'S ESTIMATED FOURTH QUARTER REQUIREMENT OF 120,000 TONS. IT SHOULD ALSO BE RECALLED THAT WHEN WE MADE OUR FEBRUARY

PLEDGE, WE ESTIMATED THAT \$15-\$18 MILLION AT THEN CURENT
PRICES WOULD PROVIDE 115,000 - 125,000 TONS OF WHEAT FLOUR.

7. BECAUSE OF THIS SHORTFALL, GSL UNDOUBTEDLY WILL EXPECT USG
TO SEEK TO CLOSE THIS FOOD-FOREIGN EXCHANGE GAP FOR REASON
CITED COLOMBO 2457, NOTING THAT ALL OTHER AID DONORS APPEAR
TO BE EQUALING OR EXCEEDING THEIR PLEDGES. THEREFORE, UNLESS
WE ARE ABLE TO PROVIDE ADDITIONAL WHEAT FLOUR, WHICH DOES NOT
SEEM LIKELY IN SHORT RUN, I RECOMMEND WE GIVE PROMPT
CONSIDERATION TO FOLLOWING ALTERNATE FORMS OF ASSISTANCE:

A) \$10-\$13 MILLION LOAN FOR PURCHASE OF FOOD; B) COMMODITY
LOAN FOR FERTILIZER IN SAME AMOUNT; OR C) \$10-\$13 MILLION
AGRICULTURAL SECTOR DEVELOPMENT LOAN. FURTHER RATIONALE AND
DETAILS RE THESE THREE ALTERNATIVES WILL FOLLOW.
VAN HOLLEN

NOTE BY OC/T: COLOMBO 2632 (#)AS RECEIVED. CORRECTION TO FOLLOW.

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Message Attributes

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Disposition Authority: morefirh
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